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OPMs

*Supplemental
Retirement Plan
Proposal*

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File
OPM
Supplemental
Retirement
Plan

MEMORANDUM FOR: Deputy Director for Administration

FROM: Robert W. Magee
Director of Personnel

SUBJECT: Comments on the OPM Supplemental Retirement Plan

1. I recommend that the Agency take exception with the OPM proposed supplemental retirement system as inadequate to meet Agency needs. You may wish to draw on the following points.

-- RETIREMENT AGE. The OPM proposal does not include CIARDS among the systems eligible for early retirement. Based on earlier discussions with OMB, we assume it is their intent to include CIARDS and will make appropriate adjustments to this proposal.

-- ANNUITY AMOUNT. The OPM proposal was not accompanied with any comparative data or analysis to estimate what annuity levels would be provided upon reaching retirement age 59 1/2. We have, therefore, relied upon our own preliminary estimates of what this defined contribution plan will provide our employees at various retirement ages. Our projections are based on the following set of economic assumptions:

Investment income - 10% in 1985 dropping to 6% a year after 1992.

General Schedule increase - None until 1987 and then 5.5% a year.

Career salary growth - Appropriated career patterns leading to the final grade shown.

Inflation - 4% a year.

The attached tables demonstrate the annuities available under the current system and under the Administration's supplemental proposal for various grades with various lengths of duty. For example, a GS-15 employee under Civil Service retiring at age 55 with 30 years of service under the current system would receive annually \$34,407. Under the Administration's proposal he would get \$14,085. Even with Social Security kicking in at age 62, the annuity will only reach \$16,154. Under CIARDS, and assuming that the supplemental proposal for law enforcement officers, etc., would apply to CIA, a GS-15 with 30 years of service retiring at age 55 currently receives \$36,701 but under the Administration's plan would receive \$19,895.

SUBJECT: Comments on the OPM Supplemental Retirement Plan

The calculations shown in the tables clearly indicate that the new proposal will not allow employees to retire with a living annuity, regardless of age, but clearly not in his early 50's.

-- VOLUNTARY FEDERAL IRA TO \$5,000 PER YEAR. This chimera is offered as a boon and as a means to compensate for the low annuity. There are several flaws in this proposal:

a. First of all, while the possible tax benefit is indeed attractive, presuming IRS will concur, which we understand is by no means assured, this is the employee's money. There is no government contribution. This proposal appears to be based on the presumption that an average government employee will be able to invest \$7,000 a year in an annuity (\$2,000 IRA plus \$5,000 new benefit). We suggest this is highly unrealistic and that there are very few employees who would have that type of disposable income. For comparative purposes, we looked at subscriptions to the Voluntary Investment Program (VIP) and note what we consider to be more realistic expectations.

The average payroll deduction is \$37.54 or \$976 per year.

72% of VIP memberships are GS-12 or above.

88% are 40 or older. Only 12% of the population participates in VIP despite certain investment benefits. We must keep in mind that the average grade level of Agency employees is GS 10/4 (\$26,411). There are not many GS-10's who will be able to contribute \$5,000 a year to a retirement account. Even if an employee had the nearly \$600 monthly in disposable income to take advantage of this questionable benefit, with the investment opportunities available in the marketplace, including tax free securities, why would an employee choose to tie up his funds in something like this until he is 59 1/2?

Frankly, this part of the proposal strikes me as charlatanic.

-- PORTABILITY. The proposal comments favorably on the alleged high portability feature which will avoid the bias of existing programs in favor of very long term employees. Full vesting rights would be available in the defined contribution fund with just one year of employment. For the security reasons we have mentioned in earlier correspondence, this high degree of portability is undesirable for the Central Intelligence Agency. We also question whether in fact the money is portable if the employee cannot gain access until age 59 1/2.

-- SURVIVOR BENEFITS. We are particularly concerned over the significantly reduced survivor benefits in the OPM proposal. Survivor benefits are particularly important to Agency employees because they are frequently required to serve in hazardous areas or the risk of terrorist attacks. These risks, of course, increase the potential for death and thus impact on an employee's willingness to serve anywhere in the world to


SUBJECT: Comments on the OPM Supplemental Retirement Plan

meet intelligence requirements. The OPM plan would provide benefits significantly less than now provided for Agency employees. The impact this could have on our ability to staff overseas or indeed to travel overseas is incalculable.

2. Finally, we must consider the wide discrepancies that will exist in the Agency between those who enjoy the benefits of the existing retirement system and those who will be operating under this proposal should it, in fact, be implemented. The discrepancy is so wide as to cause mortally dangerous morale problems. This can best be highlighted by noting that the percentage of payroll costs of existing Civil Service retirement benefits is 31. CIARDS is 47% of payroll for an aggregate of 40%. The Administration's proposal, including Social Security payments, will reduce this cost to 19%. Obviously, a cost reduction like this can only have a dramatic and traumatic effect on retirement benefits.

3. The Agency must vigorously resist this proposal.

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Robert W. Magee

Attachment

Table 1

Comparison of Benefits from Administration Plan and CSRS

Employee Entering in 1985 and Retiring at age 55 with 30 Years Service
Calculated in terms of 1985 Salary Scale

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$26,889	\$34,299	\$64,456	\$68,700
Benefit from proposed plan:				
Defined contribution plan	\$5,876	\$8,085	\$14,085	\$15,834
Social security at 62	\$4,894	\$5,282	\$5,810	\$5,810
Total benefits				
At retirement	\$5,876	\$8,085	\$14,085	\$15,834
At age 62	\$9,359	\$11,426	\$16,514	\$17,842
At age 80	\$7,098	\$8,315	\$11,094	\$11,749
Benefit from CSRS				
At retirement	\$14,233	\$18,001	\$34,407	\$36,673
At age 62	\$14,233	\$18,001	\$34,407	\$36,673
At age 80	\$14,233	\$18,001	\$34,407	\$36,673

Note: The proposed plan provides an annual contribution of 11.6% of pay. The illustration is based on the assumption in the text. Benefits for proposed plan are shown at age 55 although the plan might not permit payments until age 59.

Table 2

Comparison of Benefits from Administration Plan and CSRS

Employee Entering in 1985 and Retiring at age 65 with 40 Years Service
 Calculated in terms of 1985 Salary Scale

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$28,342	\$34,299	\$67,939	\$68,700
Benefit from proposed plan:				
Defined contribution plan	\$9,548	\$12,707	\$22,922	\$25,042
Social security	\$7,151	\$8,057	\$8,613	\$8,613
Total benefits				
At retirement	\$16,698	\$20,764	\$31,535	\$33,655
At age 80	\$12,452	\$15,113	\$21,341	\$22,518
Benefit from CSRS				
At retirement	\$20,509	\$24,819	\$49,162	\$49,712
At age 80	\$20,509	\$24,819	\$49,162	\$49,712

Note: The proposed plan provides an annual contribution of 11.6% of pay
 The illustration is based on the assumption in the text.

Table 3

Comparison of Benefits from Administration Plan and CSRS

Employee Entering in 1985 and Retiring at age 62 with 20 Years Service

Calculated in terms of 1985 Salary Scale

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$23,983	\$30,780	\$59,230	\$68,700
Benefit from proposed plan:				
Defined contribution plan	\$3,676	\$5,340	\$8,759	\$9,228
Social security	\$3,238	\$3,694	\$4,455	\$4,455
Total benefits				
At retirement	\$6,914	\$9,034	\$13,214	\$13,683
At age 80	\$5,052	\$6,330	\$8,779	\$9,010
Benefit from CSRS				
At retirement	\$8,172	\$10,589	\$19,989	\$23,634
At age 80	\$8,172	\$10,589	\$19,989	\$23,634

Note: The proposed plan provides an annual contribution of 11.6% of pay
The illustration is based on the assumption in the text.

Table 4

Comparison of Benefits from Administration Plan and CIARDS

Employee Entering in 1985 and Retiring at Age 55 with 30 Years Service

Calculated in terms of 1985 Salary Scale

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$26,889	\$34,299	\$64,456	\$68,700
Benefit from proposed plan:				
Defined contribution plan	\$5,876	\$8,085	\$14,085	\$15,834
Social security	\$4,894	\$5,282	\$5,810	\$5,810
Total benefits				
At retirement	\$10,770	\$13,367	\$19,895	\$21,644
At age 62	\$9,359	\$11,426	\$16,514	\$17,842
At age 80	\$7,098	\$8,315	\$11,094	\$11,749
Benefit from CIARDS				
At retirement	\$15,182	\$19,201	\$36,701	\$39,118
At age 62	\$15,182	\$19,201	\$36,701	\$39,118
At age 80	\$15,182	\$19,201	\$36,701	\$39,118

Note: The proposed plan provides an annual contribution of 11.6% of pay. The illustration is based on the assumptions in the text.

Supplement Provided at age 55

Table 5

Comparison of Benefits from Administration Plan and CIARDS

Employee Entering in 1985 and Retiring at Age 50 with 25 Years Service

Calculated in terms of 1985 Salary Scale

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$25,436	\$32,539	\$62,714	\$68,700
Benefit from proposed plan:				
Defined contribution plan	\$4,236	\$5,955	\$10,138	\$10,877
Social security	\$3,917	\$4,328	\$4,990	\$4,990
Total benefits				
At retirement	\$8,153	\$10,283	\$15,128	\$15,866
At age 62	\$6,563	\$8,047	\$11,322	\$11,783
At age 80	\$5,223	\$6,164	\$8,115	\$8,343
Benefit from CIARDS				
At retirement	\$12,069	\$15,310	\$29,225	\$32,598
At age 62	\$12,069	\$15,310	\$29,225	\$32,598
At age 80	\$12,069	\$15,310	\$29,225	\$32,598

Note: The proposed plan provides an annual contribution of 11.6% of pay. The illustration is based on the assumptions in the text.

Supplement provided at age 50

Table 6

Comparison of Benefits from Administration Plan and CIARDS
 Employee Entering in 1985 and Retiring at Age 60 with 30 Years Service
 Calculated in terms of 1985 Salary Scale

Grade at retirement	GS-9	GS-11	GS-15	SES
Final salary on 1985 scale	\$26,889	\$34,299	\$64,456	\$68,700
Benefit from proposed plan:				
Defined contribution plan	\$6,370	\$8,765	\$15,269	\$17,164
Social security	\$5,243	\$5,659	\$6,225	\$6,225
Total benefits				
At retirement	\$11,613	\$14,424	\$21,494	\$23,389
At age 62	\$11,133	\$13,763	\$20,342	\$22,094
At age 80	\$8,151	\$9,659	\$13,194	\$14,059
Benefit from CIARDS				
At retirement	\$15,182	\$19,201	\$36,701	\$39,118
At age 62	\$15,182	\$19,201	\$36,701	\$39,118
At age 80	\$15,182	\$19,201	\$36,701	\$39,118

Note: The proposed plan provides an annual contribution of 11.6% of pay.
 The illustration is based on the assumptions in the text.

Supplement provided at age 60